June 3, 2022

To our shareholders:

# The Items Disclosed on the Internet Concerning the Notice of the 125th Annual Shareholders Meeting

**Basic Policy on Internal Control and Operation Status Thereof**

**Notes to Consolidated Financial Statements**

**Notes to Non-Consolidated Financial Statements**

## SINTOKOGIO, LTD.

Of the attached documents to the Notice of the 125th Annual Shareholders Meeting, (i) Basic Policy on Internal Control and Operation Status Thereof, (ii) Notes to Consolidated Financial Statements, and (iii) Notes to Non-Consolidated Financial Statements are made available to shareholders on the Company's website pursuant to laws and regulations and Article 16 of the Company's Articles of Incorporation.

**Basic Policy on Internal Control and Operation Status Thereof**

The Company applies the following matters resolved at a Board of Directors meeting as the Basic Policy Concerning Internal Control Systems as explained below.

Systems and other businesses for ensuring the compliance of execution of duties by Directors with laws, ordinances and the Articles of Incorporation, systems for ensuring the appropriateness of businesses performed by a corporate group consisting of the Company and its subsidiaries (hereinafter the "Group"), and the operation status for the said systems

1. Systems concerning the storage and management of information related to execution of duties by the Company's Directors and the operation status for the said systems
   (1) Materials related to the agendas for the Company's Board of Directors meetings and items submitted thereto, and the minutes of the said meetings shall be prepared on the basis of legal provisions, and stored and managed in accordance with the term of storage.
   (2) Important documents related to business execution shall be stored and managed in accordance with the term of storage, in addition to written applications for approval that serve as information concerning the execution of the Company's businesses, materials attached thereto, the minutes of the meetings of meeting bodies and committees, etc. participated in by the Company's Chief Executive Officer, written contracts evidencing the Company's rights and obligations, accounting documents, and account books, etc.
   (3) Storage, management and access to information stated above shall be prescribed in Document Management Regulations. The approval of the Board of Directors and understanding of the Board of Auditors shall be obtained when revising the Document Management Regulations.

(Operation status)

Directors, Auditors and the Audit Group read the minutes of Board of Directors meetings and the records of written approval applications, etc., or obtained their copies in the fiscal year under review as needed in order to fulfill their responsibilities.

2. Regulations and other systems concerning the management of the risk of loss involving the Company, and the operation status for the said systems
   (1) Regarding major risks involved in the Company's business administration, systems needed for the management of individual risks shall be prepared by clarifying responsible divisions and Officers in charge by risk category.
   (2) Risks shall be grasped and analyzed, and countermeasures shall be planned, implemented, assessed, and followed up by visualizing whole major risks concerning the Company not limited to individually managed risks in a risk map and prioritizing those risks through the establishment of the Risk Management Committee aimed at managing them comprehensively.
   (3) The Risk Management Regulations that serve as the basis for risk management and related individual regulations shall be established.
   (4) Action guidelines and manuals shall be prepared by risk category, and training and education shall be provided to facilitate their understanding.
   (5) Business continuity plans (BCPs) shall be formulated to prepare for disasters, etc., and training shall be provided for preventing and reducing disaster damages. In addition, risk distribution measures, including the storage of components and consumables, shall be taken as needed.

(Operation status)

- The Risk Management Committee had three (3) annual meetings. The Committee decided on Directors in charge of and divisions responsible for respective major risks surrounding the Company, in addition to reviewing a visualized risk map. Directors in charge decided on a basic approach and specific methods for dealing with the risks based on their discussions.
- The status of activities by the Risk Management Committee was reported to the Board of Directors.
- BCPs for restoring production, etc. are formulated at the Headquarters and respective bases to prepare for disasters, etc. Periodic training (on initial responses and restoration responses) is provided every year to continue the improvement of BCPs.

3. Systems for ensuring effective execution of duties by the Company's Directors and the operation status for the said systems

(1) Systems for managing business plans

(i) The Medium-Term Business Plan and business plans for respective fiscal years shall be formulated with clarified basic management policies, such as the management philosophy and the mission as their basis. Management targets including those for business results and business strategies decided in those plans shall be incorporated into plans and targets for respective divisions and managers in business execution lines for the sake of their achievement. Businesses shall be operated through the chain of those targets.

(ii) Whether or not results for management targets are advancing as planned shall be verified at the Executive Meeting every month. In addition, required measures shall be discussed and decided by the Board of Directors based on quarterly, semiannual and annual business reports.

(2) Systems for managing business execution

(i) Criteria for important business execution matters that should be submitted to and decided by the Board of Directors shall be clarified in accordance with the Board of Directors Regulations.

(ii) The Board of Directors shall be made to specialize in decision-making and supervisory functions by expanding the Executive Officer System. At the same time, business execution shall be made more efficient and speeded up, and where responsibility for the execution lies shall be clarified by transferring authority over the execution of regular businesses to Executive Officers.

(iii) Authority over and responsibility for daily business execution shall be appropriately transferred to reporting lines in order, and responsible persons at respective levels shall make decisions timely and appropriately under the authority and responsibility of Executive Officers in accordance with the Administrative Authority Regulations and the Division of Duties Regulations.

(Operation status)

The President decides on the Medium-Term Business Plan, business plans for respective fiscal years, and required measures based on discussions with respective divisions. The President receives reports on progress, and reports progress to the Board of Directors. Senior Executive Officers and Executive Officers, etc. execute duties assigned to each of them in accordance with relevant regulations.

4. Systems for ensuring the compliance of execution of duties by the Company's Directors and employees with laws, ordinances and the Articles of Incorporation, and the operation status for the said systems

(1) SINTO Corporate Ethics Action Guidelines which prescribe actions and a frame of mind the Company's Officers and employees need for observing laws, ordinances and the Articles of Incorporation and maintaining a high sense of ethics, and a manual for specific actions based on the Guidelines shall be formulated, and made known to all parties.

(2) The Nomination and Remuneration Committee consisting of Independent External Officers only (in which Independent External Directors are members and Independent External Auditors are attendees) shall be

established on the basis of the Board of Directors Regulations. The Committee shall deliberate and resolve matters concerning basic policies on the nomination of and remuneration for Directors and Auditors, etc., nomination, evaluation and remuneration, and submit its resolutions to the Board of Directors.

(3) The Sustainability Committee shall be established to plan and promote activities focused on the environment, health and safety. At the same time, the Compliance Committee shall be set up to strengthen initiatives related to compliance.

(4) The Audit Group shall be established to periodically audit the status of internal control within the Company.

(5) The SINTO Speak-up System shall be prepared to enable the Company's Officers and employees to make a whistle-blowing report to the Company's Auditors and its legal division, or external lawyers directly.

(6) Resolute responses shall be in the ordinary times given to antisocial forces and organizations that threaten social order and safety in close cooperation with external specialist bodies such as lawyers. Unreasonable demands shall be confronted firmly by means of organized responses.

(7) Education systems by position rank such as new employees, mid-career employees and newly-appointed mangers, etc. and education systems by job category such as sales and management shall be promoted to facilitate the acquisition of required knowledge and improve a sense of ethics.

(Operation status)

・ The Company asked its Director in charge of business execution to confirm the compliance of execution of duties in the fiscal year under review with laws, ordinances and the Articles of Incorporation, and received from the said Director the written confirmation of the compliance.
・ Training by position rank concerning the SINTO Corporate Ethics Action Guidelines was provided.
・ The Nomination and Remuneration Committee in which four (4) External Directors who are Independent Officers are members and two (2) External Auditors are attendees held two (2) annual meetings, deliberated and passed a resolution on the nomination of Directors and remuneration for them, etc., and submitted its resolutions to the Board of Directors.
・ The Sustainability Committee held two (2) annual meetings, and reported the status of its activities to the Board of Directors.
・ An audit by Auditors, audit by the Accounting Auditor, and internal audit were conducted. Information was reciprocally and closely exchanged, and proposals for improvement were made as needed.
・ Contact points for whistle-blowing are set up at Statutory Auditors, and inside and outside of the Company, and made internally known to respond to the declaration of facts. The prohibition of disadvantageous treatment is clearly stated when making their establishment internally known.
・ The Compliance Committee held one (1) annual meeting, and reported the status of its activities to the Board of Directors.

5. Systems for ensuring the appropriateness of businesses at the Group and the operation status for the said systems

(1) Systems concerning reports to the Company of matters related to execution of duties by the Group's Officers and employees

・ The Company shall require periodic reports to the Company of important information, such as the business results and financial conditions of Group companies, under the Affiliated Company Management Regulations established by itself. In addition, the Company shall require deliberation and approval by its Board of Directors regarding important matters that fall under its Board of Directors Regulations.

(2) Regulations and other systems concerning the management of the risk of loss by Group companies

・ The Company shall establish the Risk Management Regulations that prescribe risk management for the Group as a whole, determines responsible divisions by risk category under the said Regulations, and comprehensively manages risks for the entire Group.

(3) Systems for ensuring efficient job execution at Group companies

(i) The Company shall formulate the Group Medium-Term Business Plan that covers a period of three (3) fiscal years, set priority management targets for the entire Group for each fiscal year based on discussions, review progress periodically, and implement countermeasures confirmed reciprocally.

(ii) The Company shall set criteria concerning the division of duties, authority, decision-making and other matters related to organization in the Group, and instruct Group companies to build systems based on the criteria.

(4) Systems for ensuring the compliance of job execution at Group companies with laws, ordinances and the Articles of Incorporation

(i) The Company shall establish the SINTO Corporate Ethics Action Guidelines and make the Guidelines known to all Group Officers and employees.

(ii) The Company shall establish Sinto Beliefs applied to all Group Officers and employees including those at overseas Group companies, and make the Corporate Ethics Action Guidelines, safety policies, environmental policies and quality policies known to all parties.

(iii) The Company shall position appropriate numbers of Auditors at Group companies in Japan according to their respective sizes.

(iv) The Company shall seek to raise the compliance awareness of Officers and employees at Group companies in Japan. At the same time, the Company shall aim to make compliance matters known to all parties by organizing periodic meetings participated in by the presidents of Group companies.

(v) The Company's Audit Group shall periodically conduct internal audits of Group companies based on the Internal Audit Regulations and the Affiliated Company Management Regulations.

(vi) The Company shall prepare the SINTO Speak-up System enabling Officers and employees at Group companies in Japan to make a whistle-blowing report to the Company's Auditors, its legal division, or external lawyers directly, and prohibit dismissal and other disadvantageous treatment for the reason of making the reports.

(vii) The Company shall work to prepare relevant regulations in accordance with internal control assessment criteria concerning generally accepted financial reports in order to ensure the reliability of the Group's financial reports. At the same time, the Company shall prepare systems for making appropriate reports, and build structures for periodically and continuously assessing preparation and operation status for the systems.

(Operation status)

・ The Company received reports on important information, such as business results for Group companies, in accordance with relevant regulations, and submitted those reports to its Board of Directors for deliberation and approval as needed.
・ The Company received reports on a map of risks at Group companies in Japan, and worked to grasp risks for the Group as a whole.
・ The Company provided training on compliance and other matters to Directors and Auditors at Group companies in Japan.
・ The Company converted audit items at Group companies in Japan into a checklist, and received reports on audit results from Auditors at the said companies.
・ The Company received business reports and reports on the state of risks, such as information on complaints and accidents, from top managers at Group companies in Japan every month. At the same time, the Company received reports on the results of Board of Directors meetings held every month. The Company held a meeting participated in by the top managers of Group companies once every quarter, and worked to make compliance matters known to all parties. At the same time, the Company received reports on the progress of business plans for each fiscal year at respective companies. In addition, Group companies in Japan held their respective Annual Shareholders Meetings in May, and reported their results to the Company's top manager.

- The Company received reports on the state of audits by Auditors at respective Group companies in Japan from their top managers. At the same time, the Company received audit results to the effect that no material fact of the violation of laws, ordinances or the Articles of Incorporation existed.
- The Company is continuing to maintain and step up the management of risks at overseas Group companies through holding companies in the United States and Europe.
- The Company received business reports and reports on the state of risks, such as information on complaints and accidents, from top managers at overseas Group companies every month. At the same time, the Company received reports on the results of Board of Directors meetings held periodically.
- The Company worked to make Group management policies known to overseas Group companies by holding the SINTO INTERNATIONAL CONFERENCE participated in by its top manager and his counterparts at the overseas Group companies in July. Through the conference, the Company confirmed the risk management status at the Group companies. The Company also received reports on the progress of business plans for the fiscal year. Furthermore, the Company held a report meeting for overseas Group companies at the end of the year where the progress of business plans, etc. were reported to its top manager. Overseas Group companies also held their respective Annual Shareholders Meetings, and reported their results to the Company's top manager.
- The Company received from the top managers of overseas Group companies a written pledge to the effect that they submit required reports to the Company and obtain required approval from the Company based on regulations established by the Company.
- The Company's Auditors, Accounting Auditor and Audit Group conducted audits of Group companies in Japan and overseas Group companies in concert with one another.
- The Company is responding to the declaration of facts by setting up contact points for whistle-blowing at Statutory Auditors, and inside and outside of the Company, and by making them known to Group companies in Japan. The Company is clearly stating the prohibition of disadvantageous treatment when making their establishment known to Group companies in Japan, too.
- In addition to the above, the Company appropriately operated the systems in accordance with the systems stated above.

6. Systems concerning employees who should assist the Company's Auditors in their duties in cases where the Auditors requested their assignment, matters concerning the independence of the said employees from the Board of Directors and the guarantee of the effectiveness of instructions, and the operation status for the said systems
   (1) Individuals appropriate as employees to assist the Company's Auditors in the execution of their duties shall be posted in cases where the Auditors requested them.
   (2) Regarding execution of duties by employees who should assist the Company's Auditors in the execution of their duties, a system for keeping the said employees independent from the Company's Board of Directors shall be secured.

(Operation status)

The members of the Company's management division in charge are providing assistance to the Auditors.

7. Systems for the Directors and employees of the Company and Group companies to make reports to the Company's Auditors and the operation status for the said systems
   (1) The Company's important documents, such as the records of its Auditors' attendance at important internal meetings, written approval applications, the minutes of important meetings and important reports, shall be provided to the Auditors. At the same time, systems enabling their reading as needed shall be secured.
   (2) The Officers and employees of the Company and Group companies shall promptly and appropriately report matters concerning business execution when reports on them are requested by the Company's Auditors.

(3) The Officers and employees of the Company and Group companies shall directly submit reports to the Company's Auditors when facts that may cause remarkable damages to the Company or its subsidiaries, such as the violations of laws and ordinances, etc., are discovered.
(4) The Company's Audit Group shall periodically submit reports to the Company's Auditors, and report the status of internal audit, etc. at the Company and the Group.
(5) The Company's division in charge of the whistle-blowing system shall periodically report to the Company's Auditors the status of such reports by the Officers and employees of the Company and Group companies.

(Operation status)
・ The Company's division in charge of the whistle-blowing system reported to Auditors the details of whistle-blowing by the Officers and employees of the Company and Group companies, and the state of responses.
・ The Company published in its monthly internal newsletter that Officers and employees of the Company and its Group companies may report directly to the Company's Auditors.
・ In addition to the above, the Company appropriately operated the systems in accordance with the systems stated above.

8. Systems for ensuring that a person who made reports as described in the preceding article will not be subject to any disadvantageous treatment for making such reports, and the operation status for the said systems
(1) The Company shall prohibit the disadvantageous treatment of Officers and employees who made reports to its Auditors for making such reports, and make this rule known to all Group Officers and employees.
(2) The Company shall prescribe in the SINTO Speak-up System and the detailed regulations for its operation established based on the Risk Management Regulations that Group Officers and employees may report directly to the Company's Auditors. At the same time, the Company shall clearly state the prohibition of dismissal and other disadvantageous treatment due to such reporting itself.

(Operation status)
・ The Company operated the systems, and confirmed the absence of problems based on the systems stated above.

9. Matters concerning procedures for the advance payment or reimbursement of expenses incurred in the execution of duties by the Company's Auditors and other policies concerning the treatment of expenses or liabilities incurred in the execution of such duties, and the operation status for the said systems
(1) In the event that an Auditor of the Company requests the Company for advance payment of expenses, etc. under Article 388 of the Companies Act in connection with the execution of his/her duties, the Company shall, after deliberation by the department in charge, promptly dispose of such expenses or liabilities, unless such expenses or liabilities are deemed not necessary for the execution of such Auditor's duties.
(2) The Company shall allocate a certain amount every year to pay for expenses incurred in the execution of duties by its Auditors, etc.

(Operation status)
There was no budget shortfall in conducting audits in accordance with the audit plan for the fiscal year under review.

10. Other systems for ensuring effective audits by the Company's Auditors and the operation status for the said systems
(1) Opportunities for on-demand or periodic interviews, or opinion exchanges with the Company's Auditors, Chief Executive Officer and Accounting Auditor shall be secured.

(2) The effectiveness of information gathering shall be guaranteed by securing opportunities for the Company's Auditors to directly interview individuals in charge of business promotion, such as the chiefs of business offices under the scope of audit, and general managers and section chiefs at those offices.

(Operation status)

- The Accounting Auditor submitted a periodic report on the results of audits for the fiscal year to Auditors based on laws and ordinances. Auditors also interviewed the Accounting Auditor concerning the state of audits as needed.

[Notes to Consolidated Financial Statements]

**Basis of Preparation of Consolidated Financial Statements**

1. Scope of consolidation

(1) Status of consolidated subsidiaries

Number of consolidated subsidiaries: 49

Names of major consolidated subsidiaries

MEIKIKOU Corporation, SINTO S-PRECISION, LTD., Heinrich Wagner Sinto Maschinenfabrik GmbH, Roberts Sinto Corporation, Qingdao Sinto Machinery Co., Ltd., Sinto Brasil Produtos Limitada, 3DCeram-Sinto, Inc. and Omega Sinto Foundry Machinery Limited

Sinto Smart Engineering Co., Ltd. was included in the scope of consolidation, since it was acquired.

(2) Status of unconsolidated subsidiaries

Number of unconsolidated subsidiaries: 7

Names of major unconsolidated subsidiaries

PT. Sinto Indonesia

Reason for exclusion from the scope of consolidation

The seven unconsolidated subsidiaries are excluded from the scope of consolidation, because they are all small in scale, and any total amount in terms of their total assets, net sales and profit or loss (amount corresponding to the Company's ownership interest) as well as retained earnings (amount corresponding to the Company's ownership interest) and others do not significantly affect the consolidated financial statements.

2. Application of equity method

(1) Status of unconsolidated subsidiaries and associates accounted for using equity method

Number of unconsolidated subsidiaries accounted for using equity method: 6

Names of major companies, etc.

PT. Sinto Indonesia

Number of associates accounted for using equity method: 6

Names of major companies, etc.

Laempe Mossner Sinto GmbH

(2) Status of unconsolidated subsidiaries and associates not accounted for using equity method

Number of unconsolidated subsidiaries and associates not accounted for using equity method: 2

Names of major companies, etc.

Cathay Asia Pacific Co., Ltd.

Reason for not accounted for using equity method

The one unconsolidated subsidiary and the one associate are excluded from the scope of application of the equity method, because they have little influence on profit or loss (amount corresponding to the Company's ownership interest), retained earnings (amount corresponding to the Company's ownership interest) and others, and have no significance.

3. Fiscal year of consolidated subsidiaries

The balance sheet date of thirty-one (31) overseas consolidated subsidiaries was December 31, 2021. The date differs from the consolidated balance sheet date. However, consolidated accounting is performed on the basis of financial statements for the fiscal year of the said consolidated subsidiaries because the difference between the said date and the consolidated balance sheet date is less than three (3) months. However, adjustments required for consolidation are made for significant transactions that arose in the period from the said date to the consolidated balance sheet date.

4. Accounting policies

(1) Valuation basis and methods for significant assets

(i) Securities

Available-for-sale securities

Securities other than those with no market price, etc.

Stated at fair value (valuation differences are booked directly in a separate component of net assets, and cost of securities sold is mainly determined by the moving average method).

Securities with no market price, etc.

Stated at cost determined by the moving average method.

(ii) Inventories

Stated at cost (balance sheet value is determined by the method of writing down the carrying amount based on profitability decline).

Finished goods and work in process

Stated at cost determined by the specific identification method for goods produced on order, and stated at cost determined by the moving average method for abrasives, etc.

Raw materials and supplies

Stated at cost determined by the progressive average inventory method for raw materials and supplies concerning the manufacture of goods produced on order, etc., and stated at cost mainly determined by the moving average method for raw materials concerning the manufacture of abrasives, etc.

(2) Accounting methods for depreciation of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

Depreciated mainly using the declining balance method. However, domestic companies use the straight-line method for buildings (excluding facilities attached to buildings) that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016.

Major useful lives are as follows:

| | |
|---|---|
| Buildings and structures | 7 to 50 years |
| Machinery, equipment and vehicles | 4 to 12 years |
| Other | 2 to 15 years |

(ii) Intangible assets (excluding leased assets)

The straight-line method is used.

(iii) Leased assets

The straight-line method is applied assuming the lease period as the useful life without residual value.

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To prepare for credit losses on receivables such as accounts receivable - trade and loans, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for receivables such as highly doubtful receivables and distressed receivables.

(ii) Provision for bonuses

To prepare for payment of bonuses for employees, the estimated amount of bonuses to be paid during the fiscal year under review is provided.

(iii) Provision for bonuses for directors (and other officers)

To prepare for payment of bonuses for directors (and other officers), the estimated amount of bonuses to be paid during the fiscal year under review is provided.

(iv) Provision for product warranties

To prepare for complaint processing expenses that may accrue during a fixed period after the delivery and acceptance inspection of plants and large machines supplied on order, etc., the amount of the said expenses estimated to accrue for net sales for the fiscal year under review is recorded on the basis of the ratio of the said expenses to net sales in the past.

(v) Provision for loss on orders received

To prepare for a future loss on order contracts, an estimated amount of loss on order contracts at the end of the fiscal year under review is provided.

(vi) Provision for retirement benefits for directors (and other officers)

To prepare for the payment of retirement benefits to Officers, an amount required for their payment at the end of the fiscal year under review is provided at some of the consolidated subsidiaries based on internal rules for the provision of retirement benefits for Officers.

(4) Accounting policy for significant revenue and expenses

The Group manufactures and sells facilities and equipment (including those for remodeling and installation and maintenance) for surface treatment, foundry, environmental, material handling and special machinery businesses, etc., and components and consumables related to the said facilities and equipment. Major obligations in these businesses are product delivery and service provision in the case of facilities and equipment, etc. under contracts with customers, and product delivery in the case of components and consumables.

Revenue from facilities, equipment, components and consumables is recognized, assuming the point where products under contracts with customers are delivered and the point where services under the said contracts are provided as the point where control is transferred.

Revenue from large plants and special machines among facilities and equipment is recognized over a fixed period by estimating the rate of progress as an obligation fulfilled over the fixed period because the high degree of manufacturing to customer specifications makes their diversion to other contracts difficult. Revenue is recognized at the point where installation, etc. is completed as an obligation fulfilled at a given point in cases where installation, etc. is not an obligation fulfilled over a fixed period.

(5) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis.

(ii) Method of expensing actuarial gains and losses

Actuarial gains and losses are expensed using an amount obtained by proportionally dividing such gains and losses by a fixed number of years (ten (10) years) within the average remaining service period of employees at the point of their accrual in the straight-line method from the fiscal year after the year of their accrual.

(iii) Adoption of the simplified method at small enterprises, etc.

Some of the consolidated subsidiaries use the simplified method for the calculation of retirement benefit liabilities and retirement benefit expenses.

(6) Accounting policy for translation of significant foreign currency assets or liabilities into Japanese yen

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and translation differences are accounted for as profit or loss. Assets, liabilities, revenue and expenses for overseas consolidated subsidiaries, etc. are translated into Japanese yen at the spot exchange rates prevailing as of the balance sheet dates of respective subsidiaries. Translation differences are recorded by including them in foreign currency translation adjustment and non-controlling interests under net assets.

(7) Method of significant hedge accounting

Deferred hedge accounting, a basic accounting method, is used. Appropriation is adopted for monetary receivables and payables in foreign currencies with forward exchange contracts fulfilling hedge accounting requirements, etc. Special treatment is used for interest rate swaps satisfying conditions for the said treatment.

(8) Accounting method and period for amortization of goodwill

Goodwill is amortized in two (2) to ten (10) years in the straight-line method.

5. Items related to changes in accounting methods

Application of Accounting Standard for Revenue Recognition, etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. With the step, the Company changed the previous practice of recognizing revenue from certain transactions at a given point as an obligation fulfilled at the given point to the method of recognizing revenue based on the rate of progress, assuming such revenue to be an obligation fulfilled over a fixed period. Furthermore, in certain transactions, the Company combines multiple contracts with customers that can be judged to have the same commercial objective, considering them as one body, instead of separate goods or services.

The Company follows transitional handling prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition regarding the application of the Accounting Standard for Revenue

Recognition, etc. From the fiscal year under review, the Company has applied new accounting policies to the balance of retained earnings at the beginning of the period, adding the cumulative effect of the said policies applied retroactively to fiscal periods before the fiscal year under review to retained earnings at the beginning of the fiscal year under review or subtracting the effect from the said retained earnings. However, the Company does not apply new accounting policies retroactively to contracts under which practically entire revenue has been recognized before the fiscal year under review in accordance with the previous handling, applying the method prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, by applying the method set forth in item (1) of the supplementary provisions of paragraph 86 of the Accounting Standard for Revenue Recognition, modifications to contracts carried out prior to the beginning of the fiscal year under review were accounted for based on the contractual terms after all contract modifications were reflected. Consequently, this cumulative effect was added to or deducted from the opening balance of retained earnings of the fiscal year under review.

Furthermore, "Notes and accounts receivable – trade" included under "current assets" in the consolidated balance sheet as of the previous fiscal year has been included in "notes receivable – trade," "accounts receivable – trade," and "contract assets" from the fiscal year under review, and "advances received" included under "current liabilities" as of the previous fiscal year has been included in "contract liabilities" from the fiscal year under review.

As a result of these changes, in our consolidated profit and loss statement for the fiscal year under review, net sales decreased by ¥126 million, cost of sales decreased by ¥107 million, operating profit decreased by ¥17 million, and ordinary profit and profit before income taxes each decreased by ¥10 million.

Because the cumulative effect was reflected in net assets as of the beginning of the fiscal year under review, the balance of retained earnings at the beginning of the fiscal year in the consolidated statements of changes in net assets increased by ¥103 million.

6. Changes in presentation

"Donations," which were included in "Other" in non-operating expenses as of the previous fiscal year have been presented in categories from the fiscal year under review due to their increased monetary importance.

Furthermore, "donations" in the previous fiscal year totaled ¥37 million.

7. Items related to revenue recognition

(1) Breakdown of revenue

Fiscal year under review (April 1, 2021 to March 31, 2022)

Breakdown of revenue information categorized by individual goods and services

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 1) | Total |
|---|---|---|---|---|---|---|---|---|
| | Surface Treatment Business | Foundry Business | Environ-ment Business | Material Handling Business | Special Equipment Business | Total | | |
| Machines | 10,211 | 21,438 | 7,166 | 5,982 | 7,006 | 51,805 | - | 51,805 |
| Parts | 8,888 | 10,084 | 3,300 | 63 | 379 | 22,716 | - | 22,716 |
| Consumables | 22,191 | 1,936 | 190 | - | 242 | 24,561 | - | 24,561 |
| Other | - | - | - | - | - | - | 163 | 163 |
| Revenue from contracts with customers | 41,292 | 33,459 | 10,658 | 6,045 | 7,628 | 99,084 | 163 | 99,247 |
| Other revenue | - | - | - | - | - | - | - | - |
| Net sales to external customers | 41,292 | 33,459 | 10,658 | 6,045 | 7,628 | 99,084 | 163 | 99,247 |

Note: 1. The "Other" category is a business segment not included in the reportable segments and includes machine design and the health and welfare business, etc.

Breakdown of revenue information presented by the period in which the revenue was recognized

(Millions of yen)

| | Reportable Segments | | | | | | Other (Note 1) | Total |
|---|---|---|---|---|---|---|---|---|
| | Surface Treatment Business | Foundry Business | Environ-ment Business | Material Handling Business | Special Equipment Business | Total | | |
| Good transferred at a point in time | 37,609 | 17,025 | 7,950 | 5,879 | 4,888 | 73,352 | 163 | 73,515 |
| Goods transferred over a set period | 3,683 | 16,434 | 2,707 | 165 | 2,739 | 25,731 | - | 25,731 |
| Revenue from contracts with customers | 41,292 | 33,459 | 10,658 | 6,045 | 7,628 | 99,084 | 163 | 99,247 |
| Other revenue | - | - | - | - | - | - | - | - |
| Net sales to external customers | 41,292 | 33,459 | 10,658 | 6,045 | 7,628 | 99,084 | 163 | 99,247 |

Note: 1. The "Other" category is a business segment not included in the reportable segments and includes machine design and the health and welfare business, etc.

(2) Basic information to understand revenue

The Group is engaged in the manufacturing and sales of equipment and devices as well as the manufacturing and sales of parts and consumables related to equipment and devices. For sales of equipment and devices, regarding the provision of products and services in each business that do not require installation and on-site adjustments, because performance obligations are fulfilled with the delivery of products and the provision of services, revenue is recognized at the point at which the performance obligation in question is fulfilled. Regarding the provision of products and services that require installation and on-site adjustments, the delivery of products and the installation and on-site adjustment of the products in question are recognized as a single performance obligation, and revenue is recognized at the point at which the installation of the products and on-site adjustments are completed.

For contract work of equipment and devices, regarding performance obligations that are fulfilled over a set period, the progress ratio of the fulfillment of performance obligations is estimated, and revenue is recognized over a set period based on the level of progress completion. In cases where performance obligations are not fulfilled over a set period, revenue is recognized at the point that installation is complete as performance obligations fulfilled at a point in time.

For transaction considerations, the Group mainly requests advances from customers for the period from when the order is received until the performance obligations are fulfilled, or payment following the fulfillment of performance obligations. As payments following the fulfilment of performance obligations mostly come within one year of the point that performance obligations are fulfilled, they do not include important financial elements.

Regarding parts and consumables related to equipment and devices, revenue is recognized at the point that performance obligations are fulfilled based on the contract between the Group and the customer.

(3) Information to understand the amount of revenue in the fiscal year under review and the next fiscal year onward

Contract liabilities included advances, etc. received prior to the fulfillment of performance obligations at the time of order, etc. based on the contract with the customer. Contract liabilities are drawn down with the recognition of revenue.

Of the amount of revenue recognized in the fiscal year under review, the amount included in the contract liability balance at the start of the year was ¥7,687 million.

Changes in contract liabilities result from increases in revenue from advances received and from revenue recognition.

The total amount of the value of transactions allocated to the residual performance obligations at the end of the fiscal year under review was ¥40,899 million. For these residual performance obligations, the Group expects to recognize revenue over a period of one to three years with the fulfillment of the performance obligations.

8. Matters concerning accounting estimates

Revenue recognized over a set period

For contract work of equipment and devices, regarding performance obligations that are fulfilled over a set period, the progress ratio of the fulfillment of performance obligations is estimated, and revenue is recognized over a set period based on the level of progress completion.

In the fiscal year under review, net sales recognized as revenue over a set period were ¥25,731 million.

Net sales related to performance obligations fulfilled over a set period are calculated based on the total amount of revenue and the progress ratio. The progress ratio is calculated based on the ratio of the actual manufacturing costs accrued through the end of the fiscal year under review against the estimated manufacturing costs.

Estimated manufacturing costs take into consideration factors, such as project specifications, the state of costs accrued in similar projects in the past, and the degree of difficulty involved in the projects. Changes from estimated manufacturing costs may arise due to facts that became known after the start of design, etc. The difference may significantly affect net sales in consolidated financial statements in the next fiscal year in cases where manufacturing costs that actually accrued differ from estimated manufacturing costs.

Order loss reserves

To prepare for future losses associated with contracts received, projected losses associated with contracts received at the end of the fiscal year under review are recorded as order loss reserves. The balance of order loss reserves at the end of the fiscal year under review was ¥278 million.

Of the projects for which the estimated manufacturing costs exceed the monetary value of orders, order loss reserves are calculated based on the amount of losses expected to be accrued from the next fiscal year onward.

Estimated manufacturing costs take into consideration factors, such as project specifications, the state of costs accrued in similar projects in the past, and the degree of difficulty involved in the projects. Changes from estimated manufacturing costs may arise due to facts that became known after the start of design, etc. The difference may significantly affect net sales in consolidated financial statements in the next fiscal year in cases where manufacturing costs that actually accrued differ from estimated manufacturing costs.

9. Additional information

(BIP Trust for Remuneration for Officers)

The Company engages in transactions with Directors (excluding External Directors) by which the Company's shares are issued to the Directors through a trust.

(1) Overview of transactions

The Company introduced the BIP Trust for Remuneration for Officers, a stock compensation plan linked to corporate value that covers three (3) fiscal years until the fiscal year that ended March 31, 2018 as a highly transparent and objective remuneration system for Officers, based on a resolution at the 118th Annual

Shareholders Meeting held on June 24, 2015 with the raising of Officers' eagerness to contribute to corporate value enhancement in the medium term as an objective. The issuance of shares, etc. did not take place in three (3) fiscal years until March 31, 2018 and additional three (3) fiscal years until March 31, 2021 because targets were not achieved. The continuation of the plan was resolved at Board of Directors meetings held on May 22, 2018 and May 24, 2021.

The plan after its continuation for the second time is a program under which the Company's shares, etc. are issued as remuneration for Officers according to corporate value enhancement in a fixed period after the end of three (3) fiscal years from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2024 (hereinafter the "period covered.) (*) with the period covered as the scope of issuance. The Company's shares, etc. to be issued are determined according to positions, and the degree of capital efficiency improvement and the level of performance target achievement, etc. during the period covered. The issuance of the Company's shares, etc. is performed as remuneration for Officers during a fixed period after the end of the period covered only in cases where capital efficiency reached a fixed degree of improvement, etc. during the said period.

The Trust Period, which had been set from December 3, 2015 to September 30, 2021, was also extended to September 30, 2024.

(*) The subsequent three (3) fiscal years will become the period covered in cases where the Trust Period is extended by changing the trust contract and making additions to the Trust upon the expiration of the Trust Period after the continuation of the plan.

(2) The Company's shares left in the Trust

The Company's shares left in the Trust are recorded as treasury shares under net assets using the carrying amount in the Trust (excluding the amount of ancillary expenses). The carrying amount and the number of the said treasury shares in the fiscal year under review are ¥179 million and 165,200 shares, respectively.

(Assumptions regarding the effects of COVID-19 used in accounting estimates)

In terms of the business environment surrounding the Group, while it is unclear when COVID-19 will end, vaccinations are making coexistence easier, and as a gradual economic recovery is expected, we forecast strong demand based on a production recovery centered on the manufacturing industry.

Amid these conditions, in forecasting performance in the next fiscal year, having considered the below state of orders, we assume that the trend of recovery will continue in the business environment.

Based on these certain assumptions, the impairment of non-current assets and the collectability of deferred tax assets, etc. are estimated.

**Consolidated balance sheet**

1. Pledged assets and secured liabilities

(1) Collateralized assets

| | |
|---|---|
| Buildings and structures | ¥266 million |
| Land | ¥1,001 million |
| Total | ¥1,267 million |

(2) Corresponding liabilities

| | |
|---|---|
| Short-term borrowings | ¥1,138 million |

| | |
|---|---|
| 2. Accumulated depreciation of property, plant and equipment | ¥43,806 million |
| 3. Discounts on notes receivable | ¥12 million |

4. Discounts on export bills ¥8 million
5. Trade notes receivable endorsed ¥27 million

**Consolidated statement of changes in equity**

1. Class and total number of issued shares as of the end of the fiscal year under review

   Common shares 54,580,928 shares

2. Class and number of treasury shares as of the end of the fiscal year under review

   Common shares 1,367,284 shares

Note: The number of treasury shares as of the last day of the fiscal year under review includes 165,200 shares of the Company held by the Trust.

3. Dividends

(1) Dividends paid

| Resolution | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of Directors meeting held on May 24, 2021 | Common shares | 640 | 12 | March 31, 2021 | June 7, 2021 |
| Board of Directors meeting held on November 5, 2021 | Common shares | 693 | 13 | September 30, 2021 | December 9, 2021 |
| Total | | 1,334 | | | |

(2) Dividends whose effective date falls in the fiscal year following the fiscal year of the record date

Matters concerning dividends on common shares are decided as follows as subjects for discussion at a Board of Directors meeting to be held on May 23, 2022.

(i) Total dividends ¥693 million
(ii) Dividends per share ¥13
(iii) Record date March 31, 2022
(iv) Effective date June 6, 2022

Retaining earnings are planned for use as a dividend source. Total dividends include trust dividends of 1 million yen.

**Tax effect accounting**

Major components of deferred tax assets and liabilities

| | |
|---|---|
| Deferred tax assets | |
| Inventories | ¥175 million |
| Accrued expenses | ¥125 million |
| Provision for bonuses | ¥506 million |
| Retirement benefit liability | ¥361 million |
| Investment securities | ¥900 million |
| Property, plant and equipment | ¥320 million |
| Tax loss carryforwards | ¥683 million |
| Other | ¥1,077 million |
| Subtotal | ¥4,149 million |
| Valuation allowance | ¥(2,659) million |
| Total | ¥1,489 million |
| Deferred tax liabilities | |
| Reserve for tax purpose reduction entry of non-current assets | ¥(97) million |
| Undistributed profit of foreign subsidiaries and associates | ¥(1,471) million |
| Valuation difference on available-for-sale securities | ¥(5,296) million |
| Other | ¥(1,255) million |
| Total deferred tax assets | ¥(8,121) million |
| Net deferred tax assets | ¥(6,631) million |

**Financial Instruments**

1. Status of financial instruments

The Group limits fund management to short-term deposits and investment products with low principal risks, etc. The Group raises funds by means of bank borrowings.

The Group is working to lower customers' credit risks concerning notes and accounts receivable - trade based on credit management criteria. The Group manages due dates and balances customer by customer. Furthermore, the division in charge of accounting and finance is executing and managing forward exchange contract transactions for foreign currency trade receivables based on requests by the division in charge of overseas sales in order to avoid foreign exchange fluctuation risks.

Investment securities are primarily shares related to businesses. The fair values of listed shares with market price fluctuation risks are grasped quarterly.

In principle, notes and accounts payable - trade are due within one (1) year. The division in charge of accounting and finance is executing and managing forward exchange contract transactions for foreign currency trade receivables based on requests by the division in charge of overseas procurement in order to avoid foreign exchange fluctuation risks.

Short-term borrowings are mainly used as operating funds. Long-term borrowings are primarily used as capital investment funds.

2. Fair values of financial instruments

Carrying amounts in the consolidated balance sheet as of March 31, 2022, fair values and the differences between them were as follows. Furthermore, as non-listed shares (¥5,501 million in the consolidated balance sheet) and investments in investment limited partnerships (¥15 million in the consolidated balance sheet) have no market price, they are not included in investment securities. Furthermore, because cash and deposits, notes and accounts payable – trade, short-term borrowings, and unpaid corporate taxes are cleared in a short period and their fair value is nearly the same as their book value, notes have been abbreviated.

(Millions of yen)

| | Carrying amount (*1) | Fair value (*1) | Difference |
|---|---|---|---|
| (1) Notes and accounts receivable - trade | 27,593 | | |
| Allowance for doubtful accounts (*2) | (114) | | |
| | 27,479 | 27,479 | 0 |
| (2) Securities | 10,799 | 10,799 | – |
| (3) Investment securities | 28,440 | 28,440 | – |
| (4) Long-term borrowings | [17,433] | [17,326] | (107) |
| (5) Lease liabilities | [297] | [297] | 0 |

(*1) The figures in brackets indicate those posted in liabilities.

(*2) Allowance for doubtful accounts, separately recorded under notes and accounts receivable - trade, is deducted.

Note: Explanation of valuation techniques and inputs used to calculate fair value

The fair value of financial products is categorized into the below three levels based on the observable inputs used in calculating the fair value and importance.

Level 1 fair value: fair value calculated from the (unadjusted) market value in a market in which the same assets or liabilities are actively traded

Level 2 fair value: fair value calculated using directly or indirectly observable inputs aside from the Level 1 inputs

Level 3 fair value: fair value calculated where important inputs cannot be observed

Where multiple inputs with important impacts are used in calculating fair value, of the inputs categorized into each level, fair values are categorized be the lowest level in the order of priorities in calculating fair value.

(1) Notes and accounts receivable - trade

The carrying amount of notes and accounts receivable - trade is used as the fair value of such notes and accounts settled in short periods because their fair value is assumed to equal their carrying amount. The fair value of notes and accounts receivable- trade whose settlement requires long periods is obtained by calculating their present value using indicators, such as market interest rates, and classified into Level 2 fair value.

(2) Securities

The fair value of securities is determined based on the price provided by financial institutions, and classified into Level 1 or Level 2 fair value.

(3) Investment securities

The fair value of investment securities is primarily determined on the basis of their prices at exchanges and prices provided by financial institutions, etc., and classified into Level 1 or Level 2 fair value.

(4) Long-term borrowings

Their fair value is determined by discounting total principal and interest by an interest rate assumed in the case of similar new borrowing or new issuance, and classified into Level 2 fair value. The amount of long-term borrowings includes their current portion (whose amount stated in the consolidated balance sheet is ¥10,210 million), which is included in short-term borrowings stated under current liabilities in the consolidated balance sheet.

(5) Lease liabilities

The fair value of lease liabilities is determined by discounting total principal and interest by an interest rate assumed in the case of similar lease contract conclusion, and classified into Level 2 fair value. The amount stated above is the sum of lease liabilities stated under current liabilities in the consolidated balance sheet and lease liabilities stated under non-current liabilities in the said balance sheet.

**Per share information**

| | |
|---|---|
| Net assets per share | ¥1,956.15 |
| Basic earnings per share | ¥53.28 |

Note: In calculating net assets per share and basic earnings per share, the Company's shares held by the BIP Trust for Remuneration for Officers are included in treasury shares deducted in the calculation of the number of common shares at the end of the period and the average number of shares during the period.

**Significant subsequent events**

Not applicable.

[Notes to Non-consolidated Financial Statements]

**Significant Accounting Policies**

1. Valuation basis and methods for assets

(1) Valuation basis and methods for securities

Shares of subsidiaries and associates

Stated at cost determined by the moving average method.

Available-for-sale securities

Securities other than those with no market price, etc.

Stated at fair value (valuation differences are booked directly in a separate component of net assets, and cost of securities sold is determined by the moving average method).

Securities with no market price, etc.

Stated at cost determined by the moving average method.

(2) Valuation basis and methods for inventories

Stated at cost (balance sheet value is determined by the method of writing down the carrying amount based on profitability decline).

Finished goods and work in process

Stated at cost determined by the specific identification method for goods produced on order, and stated at cost determined by the moving average method for abrasives, etc.

Raw materials and supplies

Stated at cost determined by the progressive average inventory method for raw materials and supplies concerning the manufacture of goods produced on order, etc. and stated at cost determined by the moving average method for raw materials concerning the manufacture of abrasives, etc.

2. Accounting method for depreciation of non-current assets

(1) Property, plant and equipment (excluding leased assets)

The declining balance method is used. However, the straight-line method is used for buildings (excluding facilities attached to buildings) that were acquired on or after April 1, 1998, and facilities attached to buildings and structures that were acquired on or after April 1, 2016. Major useful lives are as follows:

| | |
|---|---|
| Buildings | 15 to 50 years |
| Structures | 7 to 40 years |
| Machinery and equipment | 5 to 12 years |
| Vehicles | 4 to 7 years |
| Tools, furniture and fixtures | 2 to 15 years |

(2) Intangible assets (excluding leased assets)

The straight-line method is used.

(3) Leased assets

The straight-line method is applied assuming the lease period as the useful life without residual value.

3. Accounting policy for provisions

(1) Allowance for doubtful accounts

To prepare for credit losses on receivables such as accounts receivable - trade and loans, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for receivables such as highly doubtful receivables and distressed receivables.

(2) Provision for bonuses

To prepare for payment of bonuses for employees, the estimated amount of bonuses to be paid during the fiscal year under review is provided.

(3) Provision for bonuses for directors (and other officers)

To prepare for payment of bonuses for directors (and other officers), the estimated amount of bonuses to be paid during the fiscal year under review is provided.

(4) Provision for product warranties

To prepare for complaint processing expenses that may accrue during a fixed period after the delivery and acceptance inspection of plants and large machines supplied on order, etc., the amount of the said expenses estimated to accrue for net sales for the fiscal year under review is recorded on the basis of the ratio of the said expenses to net sales in the past.

(5) Provision for loss on orders received

To prepare for a future loss on order contracts, an estimated amount of loss on order contracts at the end of the fiscal year under review is provided.

(6) Provision for retirement benefits

To prepare for payment of retirement benefits for employees, projected retirement benefit obligations and plan assets at the end of the fiscal year are recorded based on deemed either accrued or realized amount at the end of the fiscal year under review.

Actuarial gains and losses are expensed using an amount obtained by proportionally dividing the said gains and losses by a fixed number of years (ten (10) years) within the average remaining service period of employees at the point of their accrual in the straight-line method from the fiscal year after the year of their accrual. However, actuarial gains and losses are recorded under investments and other assets as prepaid plan expenses in cases where plan assets that should be recognized in the fiscal year under review exceed the amount of retirement benefit obligations after the deduction of the said gains and losses, etc.

4. Accounting policy for revenue and expenses

The Company is engaged in the manufacturing and sales of equipment and devices (including renovations, installation, and maintenance, etc.) in its surface treatment business, foundry business, environmental business, and special machinery business, as well as in the manufacturing and sales of parts and consumables related to these equipment and devices. The main performance obligations in these businesses include the delivery of products and provision of services for the equipment and devices contracted with the customers, and the delivery of products in the case of parts and consumables.

Regarding equipment and devices, etc., parts, and consumables that do not require installation and on-site adjustments, revenue is recognized as transfer of control at the point at which the products contracted with the customer are delivered and services are provided. Furthermore, for the provision of products and services requiring installation and on-site adjustments, the product delivery, installation, and adjustments are recognized as a single performance obligation and revenue is recognized at the point at which final performance obligations for the on-site adjustments are completed.

For equipment and devices, the fabrication requirements based on customer specifications for large-scale plants and special machinery are extremely high and transferring them for use in other contracts is difficult. Therefore, the Company estimates the level of progress for performance obligations fulfilled over a set period and recognizes revenue over that set period. Where accrued costs for which the level of progress could not be reasonably estimated are expected to be recovered, the upper limit of revenue will be within the scope of the accrued costs. In cases where performance obligations are not fulfilled over a set period, revenue is recognized at the point that installation is complete as performance obligations fulfilled at a point in time.

For transaction considerations, the Group mainly requests advances from customers for the period from when the order is received until the performance obligations are fulfilled, or payment following the fulfillment of performance obligations. As payments following the fulfilment of performance obligations mostly come within one year of the point that performance obligations are fulfilled, they do not include important financial elements.

5. Other significant matters forming the basis of preparation of non-consolidated financial statements

(1) Accounting policy for translation of foreign currency assets and liabilities into Japanese yen

Monetary receivables and payables in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the end of the fiscal year, and exchange differences are accounted for as profit or loss.

(2) Method of hedge accounting

Deferred hedge accounting, a basic accounting method, is used. Appropriation is adopted for monetary receivables and payables in foreign currencies with forward exchange contracts fulfilling hedge accounting requirements, etc. Special treatment is used for interest rate swaps satisfying conditions for the said treatment.

6. Items related to changes in accounting methods

Application of Accounting Standard for Revenue Recognition, etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. With the step, the Company changed the previous practice of recognizing revenue from certain transactions at a given point as an obligation fulfilled at the given point to the method of recognizing revenue based on the rate of progress, assuming such revenue to be an obligation fulfilled over a fixed period. Furthermore, in certain transactions, the Company combines multiple contracts with customers that can be judged to have the same commercial objective, considering them as one body, instead of separate goods or services.

The Company follows transitional handling prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition regarding the application of the Accounting Standard for Revenue Recognition, etc., but there was no impact on the balance of retained earnings at the beginning of the fiscal year under review. There was also no impact on profits and losses in the fiscal year under review.

Furthermore, “accounts receivable – trade” included under “current assets” in the balance sheet as of the previous fiscal year has been included in “accounts receivable – trade” and “contract assets” from the fiscal year under review, and “advances received” included under “current liabilities” as of the previous fiscal year has been included in “contract liabilities” from the fiscal year under review.

7. Items related to revenue recognition

Because the same contents are provided in the notes to consolidated financial statements "7. Items related to revenue recognition," they have been abbreviated here.

8. Matters concerning accounting estimates

Revenue recognized over a set period

For contract work of equipment and devices, regarding performance obligations that are fulfilled over a set period, the progress ratio of the fulfillment of performance obligations is estimated, and revenue is recognized over time based on the level of progress completion.

In the fiscal year under review, net sales recognized as revenue over a set period totaled ¥16,447 million.

Net sales related to performance obligations that are fulfilled over a set period are calculated based on the total amount of revenue and progress ratio, and the progress ratio is calculated based on the ratio of the real manufacturing costs accrued through the end of the fiscal year under review against the estimated manufacturing costs.

Estimated manufacturing cost takes into consideration factors, such as project specifications, the state of cost accrued in similar projects in the past, and the degree of difficulty involved in projects. Changes from estimated manufacturing cost may arise due to facts that became known after the start of design, etc. The difference may significantly affect net sales in financial statements in cases where manufacturing cost that actually accrued differs from estimated manufacturing cost.

Order loss reserves

To prepare for future losses associated with contracts received, projected losses associated with contracts received at the end of the fiscal year under review are recorded as order loss reserves. The balance of order loss reserves at the end of the fiscal year under review was ¥105 million.

Of the projects for which the estimated manufacturing costs exceed the monetary value of orders, order loss reserves are calculated based on the amount of losses expected to be accrued from the next fiscal year onward.

Estimated manufacturing costs take into consideration factors, such as project specifications, the state of costs accrued in similar projects in the past, and the degree of difficulty involved in the projects. Changes from estimated manufacturing costs may arise due to facts that became known after the start of design, etc. The difference may significantly affect net sales in consolidated financial statements in the next fiscal year in cases where manufacturing costs that actually accrued differ from estimated manufacturing costs.

9. Additional information

(Assumptions regarding the effects of COVID-19 used in accounting estimates)

In terms of the business environment surrounding the Company, while it is unclear when COVID-19 will end, vaccinations are making coexistence easier, and as a gradual economic recovery is expected, we forecast strong demand based on a production recovery centered on the manufacturing industry.

Amid these conditions, in forecasting performance in the next fiscal year, having considered the below state of orders, we assume that the trend of recovery will continue in the business environment.

Based on these certain assumptions, the impairment of non-current assets and the collectability of deferred tax assets, etc. are estimated.

**Non-consolidated balance sheet**

1. Accumulated depreciation of property, plant and equipment ¥26,687 million

2. Contingent liabilities

   Guarantees, etc. are provided for other companies' debts to financial institutions, etc.

| | |
|---|---|
| MEIKIKOU Corporation | ¥44 million |
| SINTO S-PRECISION, LTD. | ¥114 million |
| Heinrich Wagner Sinto Maschinenfabrik GmbH | ¥1,977 million |
| Sinto America, Inc. | ¥611 million |
| Qingdao Sinto Machinery Co., Ltd. | ¥11 million |
| FROHN GmbH | ¥131 million |
| Sinto Bharat Manufacturing Private Limited | ¥77 million |
| Total | ¥2,969 million |

3. Monetary receivables from and payables to affiliated companies

| | |
|---|---|
| Short-term monetary receivables | ¥4,741 million |
| Long-term monetary receivables | ¥1,895 million |
| Short-term monetary payables | ¥2,253 million |
| Long-term monetary payables | ¥792 million |

4. Monetary payables to Directors ¥26 million

**Non-consolidated Statement of Income**

Volume of transactions with affiliated companies

| | |
|---|---|
| Volume of sales transactions | |
| Net sales | ¥7,149 million |
| Purchase of goods | ¥6,472 million |
| Volume of non-sales transactions | ¥795 million |

**Non-consolidated statement of changes in equity**

Class and number of treasury shares as of the end of the fiscal year under review

Common shares 1,367,284 shares

Note: The number of treasury shares at the end of the fiscal year under review includes 165,200 shares of the Company held by the Trust.

**Tax effect accounting**

Major components of deferred tax assets and liabilities

| | |
|---|---|
| Deferred tax assets | |
| Accrued expenses | ¥78 million |
| Allowance for doubtful accounts | ¥308 million |
| Provision for bonuses | ¥360 million |
| Provision for product warranties | ¥80 million |
| Investment securities | ¥504 million |
| Shares of subsidiaries and associates | ¥2,167 million |
| Property, plant and equipment | ¥103 million |
| Other | ¥284 million |
| Subtotal | ¥3,888 million |
| Valuation allowance | ¥(3,187) million |
| Total | ¥700 million |
| Deferred tax liabilities | |
| Reserve for tax purpose reduction entry of non-current assets | ¥(97) million |
| Valuation difference on available-for-sale securities | ¥(5,192) million |
| Prepaid pension costs | ¥(351) million |
| Total deferred tax assets | ¥(5,641) million |
| Net deferred tax liabilities | ¥(4,940) million |

Transactions with the related party

Subsidiaries and associates

(Millions of yen)

| Type | Name of the company, etc. | Percentage of voting rights, etc. held (held by others) (%) | Relationship with the related party | Details of transaction | Transaction amount | Account | Ending balance |
|---|---|---|---|---|---|---|---|
| Subsidiary | Heinrich Wagner Sinto Maschinenfabrik GmbH | (Voting rights, etc. held) Indirectly at the rate of 100% | Debt guarantee | Debt guarantee | 1,977 | – | – |
| | | | Concurrent service of officers | | | Short-term borrowings | 657 |
| | | | Borrowing of funds | Borrowing of funds | 1,317 | Long-term borrowings | 659 |

Note: Business terms and policies for their decision, etc.

The debt guarantees to Heinrich Wagner Sinto Maschinenfabrik GmbH are for advance guarantees, etc. received by the company from banks, and no guarantee fees have been received. Furthermore, the borrowing of funds is decided by considering market interest rates, etc.

**Per share information**

| | |
|---|---|
| Net assets per share | ¥1,459.77 |
| Basic earnings per share | ¥25.46 |

Note: In calculating net assets per share and basic earnings per share, the Company's shares held by the BIP Trust for Remuneration for Officers are included in treasury shares deducted in the calculation of the number of common shares at the end of the period and the average number of shares during the period.

**Significant subsequent events**

Not applicable.